

Office of the Legislative Auditor

State of Montana



Report to the Legislature

April 1992

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1991

Department of Administration

This report contains recommendations for improving internal control, financial reporting, and compliance. These recommendations address:

- ▶ Increasing collection of construction supervisory fees.
- ▶ Maintaining adequate collateral for state deposits.
- ▶ Improving accounting system access controls.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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April 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for fiscal years 1989-90 and 1990-91. Included in this report are recommendations related to supervisory fees, unexpended capital projects appropriations, collateral for state deposits and accounting system access controls.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Department of Administration

Members of the audit staff involved in this audit were Pearl M. Allen, Mark C. Barry, Jeane Carstensen, John Fine, Renee Foster, Tori Hunthausen, Charles V. Jensen, Charles Nemec, Jill Olson, Lorry Parriman, and Catherine L. Scarff.

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Appointed and Administrative Officials

Department of Administration

Bob Marks, Director

Dave Ashley, Deputy Director

Chuck Virag, Administrator
Accounting & Management Support Division

Thomas B. O'Connell, Administrator
Architecture & Engineering Division

Debra M. Kehr, Administrator
General Services Division

Mike Trevor, Administrator
Information Services Division

Laurie Ekanger, Administrator
State Personnel Division

Marvin Eicholtz, Administrator
Procurement and Printing Division

Lawrence P. Nachtsheim, Administrator
Public Employees' Retirement Division

John J. McNaught, Chairman
State Tax Appeal Board

Dave L. Senn, Administrator
Teachers' Retirement Division

Brett Dahl, Administrator
Risk Management and Tort Defense Division

Patrick J. Sweeney, President
State Compensation Mutual Insurance Fund

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the department establish written procedures to ensure the timely close out of appropriations after projects are complete.	7
	<u>Agency Response:</u> Concur. See page 37.	
<u>Recommendation #2</u>	We recommend the department charge construction projects for services provided by the Architecture and Engineering Division.	8
	<u>Agency Response:</u> Concur. See page 37.	
<u>Recommendation #3</u>	We recommend the department establish written procedures for deferred compensation which include the resolution of all differences between the department's records and plan investment reports.	10
	<u>Agency Response:</u> Concur. See page 38.	
<u>Recommendation #4</u>	We recommend the department develop a system to adequately monitor pledged security levels and bank substitution of security.	11
	<u>Agency Response:</u> Concur. See page 38.	
<u>Recommendation #5</u>	We recommend the department implement procedures which ensure the accounting records are in accordance with state accounting policy and law.	13
	<u>Agency Response:</u> Concur. See page 39.	
<u>Recommendation #6</u>	We recommend the department limit user access to SBAS back-up data sets.	14
	<u>Agency Response:</u> Concur. See page 39.	
<u>Recommendation #7</u>	We recommend the department review access rules of its mainframe users for compliance with department accepted standards on password changes.	15
	<u>Agency Response:</u> Concur. See page 39.	

Summary of Recommendations

<u>Recommendation #8</u>	We recommend the department develop procedures to ensure access levels entered into OE&E match the levels authorized by the agencies.	16
	<u>Agency Response:</u> Concur. See page 40.	

Introduction

We performed a financial-compliance audit of the Department of Administration (the department) for the two fiscal years ended June 30, 1991. The objectives of the audit were to:

1. Make recommendations for improvement in the department's management and internal controls.
2. Determine if the department complied with applicable laws and regulations.
3. Determine if the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1991.
4. Determine the implementation status of prior audit recommendations.

This report contains eight recommendations designed to improve the department's internal control, compliance with laws and regulations, and financial reporting. In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant and practicable to obtain, of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to department management.

Department Organization and Functions

The Department of Administration consists of the Director's Office, eight divisions, and four administratively attached agencies. The four attached agencies are the Board of Examiners, the State Tax Appeal Board, the State Compensation Mutual Insurance fund, and the Teachers' Retirement Division. A description of the department's primary functions during the audit period follows.

Director's Office - supervises and coordinates the activities of the various divisions within the department and the administratively attached boards and agencies and provides the department legal counsel. In addition, the director is responsible for monitoring general obligation debt and providing staff support to the Board of Examiners.

Introduction

Accounting and Management Support - operates the State-wide Budgeting and Accounting System; provides financial reporting policies and related training for all state agencies; and publishes the state's comprehensive annual financial report. The division provides management support services to divisions of the department, including accounting, budgeting, payroll, personnel management, treasury unit, and data processing services.

Architecture & Engineering - oversees the planning, design, and construction of state buildings, structures, and major maintenance projects under the Long Range Building Program.

General Services - maintains state buildings, provides mail and messenger services for state agencies in the Helena area, and contracts for capitol complex security. The division also is responsible for office space allocation and management functions.

Information Services - provides central mainframe computer processing services; shared statewide data communications network services; local and long distance telephone services; data processing training; computer application development and support; microcomputer and office automation support services; radio frequency coordination liaison with local government; data processing planning, coordination and control of equipment and software acquisitions; disaster recovery assistance for critical data processing applications; and control and coordination of the statewide 911 program.

Personnel - administers the state classification and pay plan; adopts state personnel policies; provides state employee training; administers the state's equal employment opportunity, affirmative action, deferred compensation, group benefits, and incentive awards programs; and acts on behalf of the state in labor relations and negotiations.

Procurement and Printing - provides centralized purchasing services for state agencies; manages the state's surplus property; and provides centralized printing, graphics, and duplicating for state agencies.

Risk Management and Tort Defense - provides insurance coverage for state agencies, administers the self-insurance and risk management program, defends state

agencies under the Tort Claims Act, and provides property appraisal services.

The Teachers' Retirement Division, the Public Employees' Retirement Division, and related retirement systems' funds, and the State Compensation Mutual Insurance Fund are covered in separately issued audit reports. We also perform a separate annual review of the state's data processing center and accounting system, which are operated by the department.

Prior Audit Recommendations

Prior Audit Recommendations

In our prior audit for the two fiscal years ended June 30, 1989, we made 12 recommendations to the department. Based on our review, we found the department implemented eight and partially implemented four. Partially implemented recommendations concerning revenue classification (page 11), and user control standards (page 15) are discussed further in this report. The other two issues have been discussed with management and are not specifically included in this report.

Findings and Recommendations

Architecture and Engineering Division

The Architecture and Engineering Division (A&E) oversees construction, renovation and repair of state-owned buildings. The division also formulates a long-range building plan for legislative consideration each session. A&E is funded from the long range building fund. This account receives 29.11 percent of the cigarette tax, interest on bond proceeds, and supervisory fees which the division collects for assisting with building projects not funded through the long-range building program.

Unexpended Appropriations

We found the Architecture and Engineering Division has no written policy or procedures to ensure appropriations are closed out in a timely manner after construction projects are complete. A similar issue was also addressed in the fiscal years 1985-86 and 1986-87 financial compliance audit report. In follow-up during our previous audit, we found A&E had closed out some old appropriations.

Remaining appropriation authority for previously authorized capital projects are routinely reappropriated by each legislature because most building projects extend over several years and some building projects are delayed while agencies wait for funds to become available. However, the reappropriation provision has also enabled agencies to keep appropriation authority longer than is necessary.

After a final inspection of completed construction and a one-year warranty period, A&E completes a project closeout report and requests the applicable agency to approve the closeout of the appropriation. No state requirement or department policy exists that mandates capital project appropriations be closed within a certain time period after all obligations connected with the appropriated projects are met. Also, no time limits for completing projects have been established by state law or the department.

Our analysis of the 354 long range building plan appropriations listed on the state's accounting system as of October 31, 1991 shows some appropriations have continued for ten years. The

Findings and Recommendations

following table identifies the number of appropriations still on the accounting system from each of the last ten years.

<u>Fiscal Year</u>	<u>Number of Appropriations</u>
1991-92	10
1990-91	106
1989-90	22
1988-89	81
1987-88	4
1986-87	60
1985-86	5
1984-85	45
1983-84	1
1982-83	<u>20</u>
Total	<u>354</u>

Department personnel indicated a number of reasons why appropriations remain open. For some, the funding sources are not available when anticipated. When a number of different projects make up one appropriation all projects must be completed before the appropriation can be closed. Our analysis of the appropriations indicates that 77 percent (101 out of 131) of the appropriations that became available in fiscal year 1986-87 or before are at least 80 percent expended. We discussed specific appropriations with A&E personnel. From these discussions, we identified 44 appropriations with \$455,002 of unexpended authority where the projects have been closed or are substantially complete. By analyzing these appropriations, A&E can allocate the resources, where appropriate, to other projects in the long range building program. During the January 1992 Special Session, the Legislature allocated \$350,000 of appropriation authority to projects not previously funded from the long range building plan. The department will fund this additional authority by reverting unspent appropriation authority from completed projects.

Department personnel stated that due to personnel turnover in two positions they are behind in closing out projects and appropriations, although personnel are currently working on project close outs. In addition, personnel indicated that some of the delay in removing the appropriations from the records is caused by agencies who either do not approve the item being taken off

Findings and Recommendations

the records or delay the process by not responding to A&E. Department regulations do not require A&E to obtain agency approval to close appropriations.

Department personnel agreed that a policy related to the closeout process might help if it included some time limits for how long agencies have to submit claims. A&E should establish written procedures to facilitate the timely close out of appropriations.

Recommendation #1

We recommend the department establish written procedures to ensure the timely close out of appropriations after projects are complete.

Supervisory Fees

The department's Architecture and Engineering Division (A&E) charges a supervisory fee to construction projects for which it provides services. A&E charges 3 percent of the project cost for jobs where it administers bidding, accounting, and inspections. The rate increases to 5 percent of the cost if A&E also performs design work. According to A&E management, these rates are designed to recover the costs of providing these services. A&E includes all personnel costs in its cost pool and excludes printing and other contracted services which are charged directly to each project.

In fiscal year 1990-91, the department expended \$548,502 in the A&E program but only collected \$63,057 in supervisory fees. The department does not charge supervisory fees to projects funded from the long range building program account since these costs are already budgeted in that account. In addition, projects funded with state insurance fund moneys and U.S. Department of Defense grants at the Montana Department of Military Affairs do not pay supervisory fees.

Findings and Recommendations

Department personnel at A&E did not realize supervisory fees are allowable on state insurance projects. Risk Management and Tort Defense personnel said insurance projects had not been charged by A&E, but indicated such charges would probably be allowable. A&E personnel said Military Affairs provided A&E with regulations indicating A&E costs are not allowable. Since the services performed by A&E comprise direct costs associated with completing construction projects, we believe these costs should be allowable. Military Affairs management said National Guard Regulations limit payments for certain project costs, but do not specifically exclude paying a state agency for services performed on construction projects.

In our review of federal regulations pertaining to the U.S. Department of Defense, we found a regulation which limited grant costs to "the allowable costs of the grantees, subgrantees, and cost type contractors . . . Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs." The work performed by A&E is an allowable cost under applicable federal regulations. Had the department charged supervisory fees to the Department of Defense projects, the department would have collected an estimated additional \$62,675 and \$9,107 in fiscal years 1989-90 and 1990-91, respectively.

The department deposits supervisory fee collections in the long range building program account. Since the department transfers all funds necessary to operate A&E from the long range building program account to the Special Revenue Fund, additional supervisory fee collections will increase moneys available in the long range building fund account to finance construction work.

Recommendation #2

We recommend the department charge construction projects for services provided by the Architecture and Engineering Division.

Deferred Compensation Plan

The department administers the state's deferred compensation plan. The plan allows employees to set aside a portion of their salary each payday towards retirement while deferring state and federal income taxes until future years. Employees may withdraw money from the plan upon termination, retirement, death, or unforeseeable emergency. The state's deferred compensation plan had assets with market value of \$70,674,000 at June 30, 1991. During fiscal years 1989-90 and 1990-91, over \$12,000,000 of compensation was deferred to the plan by state employees. See page 33 for disclosure of plan activity for fiscal years 1989-90 and 1990-91.

Section 19-2-202, MCA, requires the department to "protect the interests of program participants and safeguard the assets of the deferred compensation plan." Therefore, the department has a fiduciary responsibility to monitor deferred compensation activity, including investigating and reconciling differences between its records and plan investment reports.

During the audit period department personnel prepared a spreadsheet of deferred compensation activity. This spreadsheet shows the amount deferred by participants through payroll deductions and the amounts reported as invested by the plan. Department personnel compare the differences between the two amounts but do not always resolve all differences. We noted two months during the audit period where differences of over \$10,000 were not fully resolved.

Without a complete monthly reconciliation errors and irregularities may not be detected in a timely manner. Department personnel said that reconciliations were not always completed because of turnover in personnel who were responsible for and understood the reconciliation process. To ensure the department fulfills its statutory responsibility for the deferred compensation plan, written procedures should be established to ensure a monthly reconciliation including the resolution of all differences found. The audit report for the two fiscal years ended June 30, 1987, contained a recommendation related to this issue. Also, in the prior report for the two fiscal years ended June 30, 1989 we mentioned that the department had made progress

Findings and Recommendations

related to the recommendation and should continue to monitor and revise policy and procedures as necessary.

Recommendation #3

We recommend the department establish written procedures for deferred compensation which include the resolution of all differences between the department's records and plan investment reports.

State Compliance

During our audit we tested compliance with certain state laws and policies related to the operation of the department. We noted the instances below where the department did not comply with provisions of state laws and policies.

Collateral for State Deposits

The Treasury Unit, which is part of the department's Accounting and Management Support Division, is responsible for the deposit of public moneys in its possession and under its control in solvent financial institutions. Section 17-6-102, MCA, requires that banks provide security for state deposits in excess of the amount insured by federal deposit insurance. During our testing we found the following weaknesses in Treasury Unit monitoring of bank collateral.

We found four out of ten banks we reviewed held state deposits which exceeded the federal insurance amount but did not pledge securities for collateral as required by state law. Each of the four banks had a balance in excess of the amount of federal deposit insurance for at least one day of the month tested. Department personnel indicated that they review the monthly bank statements. Department personnel said that unless a bank exceeds the insurance amount on a regular basis, additional security is not required.

State law allows financial institutions to substitute the makeup of securities pledged. State law only requires the Treasury Unit be

Findings and Recommendations

notified if the substitutions are with securities held in trust. During our review we found an instance where the Treasury Unit was not aware of a substitution in security between branches of a bank for over eight months from when the substitution had occurred. Without monitoring procedures a bank could substitute collateral of lower value and fall below security requirements without the state's knowledge. Department personnel indicated there are procedures they could implement to more closely monitor the substitution of security.

The state risks losing amounts held in excess of the federal deposit insurance that are not secured should the financial institution fail. In order to protect state funds the Treasury Unit should establish a system to ensure state deposits are properly secured. The system needs to ensure that all institutions with state deposits exceeding the federal deposit insurance amount have collateral security for those deposits and that the security pledged is adequate in compliance with state law.

Recommendation #4

We recommend the department develop a system to adequately monitor pledged security levels and bank substitution of security.

Accounting Issues

Section 17-1-102(5), MCA, requires all state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. In addition, the Department of Administration, Accounting and Management Support Division, establishes state accounting policy as outlined in the Montana Operations Manual (MOM). We noted the following instances where the activity recorded by the department on SBAS does not comply with state accounting policy and law.

Findings and Recommendations

1. The department's Risk Management and Tort Defense Division estimates probable liabilities from lawsuits against the state at the end of each fiscal year. Although the department calculates the estimate from data maintained throughout the year, the department did not record the liability for fiscal year 1989-90 until fiscal year 1990-91, and recorded the \$615,086 expense for fiscal year 1989-90 as a current year expense in fiscal year 1990-91 rather than as prior year expenditures.
2. We found the following three instances where the department did not properly classify revenue according to state accounting policy:
 - Administrative expense reimbursements were recorded as investment earnings and miscellaneous revenue in fiscal years 1989-90 and 1990-91, respectively. State accounting policy requires that services provided by the state to individuals, including administrative fees, be recorded as charges for services revenue. As a result, revenue is misclassified in fiscal years 1989-90 and 1990-91 by \$33,000 and \$14,993 respectively.
 - The department recorded National Forest Fees received from federal sources in the licenses and permits revenue class which misstated both the federal and licenses and permits classes by \$194,739 and \$425,806 in fiscal years 1989-90 and 1990-91, respectively.
 - The Department of Labor and Industry (DOLI) recorded revenue received from federal sources as miscellaneous revenue in an accounting entity shared by Architecture and Engineering and DOLI. As a result, the federal and miscellaneous revenue classes are misstated by \$88,217 in fiscal year 1989-90.

The department should implement procedures that ensure expenditures and revenue on SBAS are recorded in compliance with state accounting policy and law.

Recommendation #5

We recommend the department implement procedures which ensure the accounting records are in accordance with state accounting policy and law.

Electronic Data Processing

The Office of the Legislative Auditor annually conducts a central review at the Information Services Division (ISD) and the Accounting Bureau. The review examines controls over the mainframe computer operated by ISD and specific controls related to systems which operate on the mainframe computer. The systems include the Statewide Budgeting and Accounting System (SBAS) and Property Accountability and Management System (PAMS) maintained by the Accounting Bureau.

Of the three issues addressed below concerning these systems, one was discussed in our prior audit report.

SBAS Access

Access controls are physical or electronic safeguards designed to ensure computer system resources are properly used. These controls consist of input controls instituted for each application as well as access controls governed by the state's mainframe computer security software (ACF2).

During our review of the department's ACF2 rules for SBAS, we noted current rules allow all users access to change the Information Control Core (ICC) data set back-up files. With this access, these users could make changes to ICC data. Since users have an authorized method for revising data, this additional access to data sets is not necessary. Department management said the risk associated with the access to these back-up files appeared low. The files will only be used if the disc drive malfunctions, which has not happened, a manager said. Since only a few agencies enter ICC changes directly, the risk

Findings and Recommendations

associated with allowing access to all users could be eliminated with little inconvenience to system users.

Recommendation #6

We recommend the department limit user access to SBAS back-up data sets.

Password Security

The ACF2 security software contains a feature which allows the system security officer to require each mainframe user to change passwords at specified intervals. Frequent password changes increase security of data and programs by making unauthorized use more difficult.

The ACF2 software recommends the maximum time between password changes be set at 90 days and gives this time as the preset maximum time. Department personnel must change the software set limit to get a period other than 90 days as a password limit. The department has adopted this standard for its mainframe users. During July 1991 fieldwork, we examined user profiles which are lists of the access and access restrictions department personnel have to the state's mainframe. We noted five user profiles without the 90-day limit. In December 1991, we noted the five had been corrected, but two more user profiles did not have the limit. Department management said the department uses our audit to identify exceptions to the 90-day password limit. Because the department records we use during our audit are routinely available, we believe it is appropriate for the department security officer to monitor these user profiles.

Findings and Recommendations

Recommendation #7

We recommend the department review access rules of its mainframe users for compliance with department accepted standards on password changes.

OE&E Control Standards

During our last audit, we identified a problem with agency and user control standards for on-line edit and entry (OE&E) to SBAS. Agency control standards govern standards for the agency as a whole. User control standards govern the functions individual users can perform on SBAS documents. For example, the user control function may limit one individual to entering a specific type of document and another individual to approving the document. The agency control standards establish such things as which documents require approval.

Agencies request the agency and user controls by submitting an OE&E worksheet to the Accounting Bureau. Accounting Bureau enters the controls into the OE&E database. Only Accounting Bureau personnel can inquire, enter, and change control standards.

To ensure the agency submitted controls exist, a procedure to match user controls to the OE&E worksheets submitted by the agencies is necessary. We compared user controls to the agency worksheets authorizing OE&E access. We noted three of ten users had access to OE&E functions for which the users were not authorized. As a result, documents could be entered, approved or changed improperly.

Since the last audit, the department has started sending a report on OE&E access to the agencies every six months. The report allows the agencies to monitor the level of access of its employees. However, this does not eliminate the department's responsibility for ensuring the level of access entered on the OE&E database is the same as the level authorized by the

Findings and Recommendations

agencies on the form submitted to the department. Department personnel said the form used to authorize access may cause confusion as to the access level authorized by the user agency. The department should consider procedures, such as verification of access input to access authorized on the agency submitted form and improvements in the form, to ensure OE&E access levels match those authorized by the user agencies.

Recommendation #8

We recommend the department develop procedures to ensure access levels entered into OE&E match the levels authorized by the agencies.

Excess Investment Yield

The department sold \$8.55 million in long range building program general obligation bonds in July 1985. According to the "No Arbitrage Certificate" signed by a department official, the department was expected to spend at least 85 percent of the bond proceeds within three years. The legislature appropriated \$1.7 million of the bond proceeds for loans to municipal airports and \$1.4 million for construction of a swimming pool at Western Montana College. As of June 30, 1989 \$879,345 remained in the airport loan account. The swimming pool was not built. As a result, proceeds in excess of 15 percent of the initial issue remained unspent after three years.

According to federal regulations, the department could invest the proceeds at a rate higher than the interest rate paid to the bondholders during the initial three-year period, but not afterwards. The department invested the proceeds in the Short-Term Investment Pool (STIP). The STIP interest rate exceeded the interest rate paid to bondholders for most of the period since the sale of the bonds.

Federal regulations require the department to compute the amount by which interest earned on bond proceeds exceeded the yield restriction as of the last day of the fifth bond year, which would have been July 1990. The department plans to have the state's bond counsel calculate the excess investment yield. As of February 1992, the calculation had not been completed.

Department personnel believe it is not necessary to record a liability for the excess because federal regulations require investment of remaining proceeds in below market interest rate securities rather than direct cash reimbursement. However, the department still has an obligation to reduce future interest earnings to offset previous earnings in excess of the interest rate on the bonds. According to department personnel, yield restriction on remaining bond proceeds and balances may not be sufficient to offset the excess investment income. Since the department has engaged the state's financial advisor to calculate the excess investment yield and the necessary restricted yield rate, we make no further recommendation on this issue.

Independent Auditor's Report & Department Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes in Fund Balances, the Schedules of Budgeted Revenue and Transfers In - Estimate and Actual, and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual. This means the schedules are fairly stated in all material respects and the user may place reliance on the information presented.



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JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Administration for each of the two fiscal years ended June 30, 1990 and 1991, as shown on pages 22 through 33. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Administration for the two years ended June 30, 1990 and 1991, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script, reading "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 29, 1991

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Enterprise Funds	Internal Service Funds
FUND BALANCE: July 1, 1989	\$ 0	\$ 5,072,432	\$ 10,722,258	\$ 7,196,626	\$ 13,372,563	\$ 12,854,140
ADDITIONS						
<u>Fiscal Year 1989-90</u>						
Budgeted Revenue & Transfers In	74,578,644	4,315,445	41,169	9,164,455	22,967,958	35,715,393
Nonbudgeted Revenue & Transfers In	77,446		17,708,605 ²	24,054	11,381	11,255
Cash Transfers In		3,748,836	45,674,337 ²	3,038,759	8,188	28,080
Prior Year Revenue Adjustments	(31,085)	(117,014)			16,902	(30,476)
Prior Year Transfers In Adjustments	2,094,114	(4,284)				110
Direct Entries to Fund Balance		608,640				
<u>Fiscal Year 1990-91</u>						
Budgeted Revenue & Transfers In	65,244,817	4,515,694	38,586	2,064,749	28,915,978	37,556,771
Nonbudgeted Revenue & Transfers In	112,900		16,057,828 ²	15,584	38,301	20,704
Cash Transfers In		2,590,725	40,178,347 ²	3,336,386	67,091	31,439
Prior Year Revenue Adjustments	711,386	145,542	(85,153)	4,090	30,757	1,007
Prior Year Transfer In Adjustments		9,126				89,606
Prior Year Expenditure Adjustments						
Direct Entries to Fund Balance	499,718					121,699
Total Additions	<u>143,297,066</u>	<u>15,803,584</u>	<u>119,613,719</u>	<u>17,648,077</u>	<u>52,056,556</u>	<u>73,545,588</u>
REDUCTIONS						
<u>Fiscal Year 1989-90</u>						
Budgeted Expenditures & Transfers Out	35,244,009 ³	5,933,701		9,982,745	25,745,153	35,015,017
Nonbudgeted Expenditures & Transfers Out			62,539,937		621,064	412,038
Cash Transfers Out		1,689,022				
Support to State of Montana	38,933,082					
Prior Year Expenditure Adjustments	(12,504)	56,278			4,101	(34,997)
Prior Year Expenditures				478		
Prior Year Transfers Out Adjustments		107				
Nonbudgeted Prior Year Expenditure Adjustments					(462)	(561,421)
Direct Entries to Fund Balance	2,554,532 ¹					175,125
<u>Fiscal Year 1990-91</u>						
Budgeted Expenditures & Transfers Out	15,518,143 ³	5,394,055		6,220,615	29,237,527	37,161,257
Nonbudgeted Expenditures & Transfers Out	7,515		57,198,628		382,814	(65,704)
Cash Transfers Out		1,897,292				
Support to State of Montana	51,222,595					
Prior Year Expenditure Adjustments		32,470			24,223	32,944
Prior Year Expenditures		(13,879)		2,237	176	11,299
Prior Year Transfer Out Adjustments	(170,306)	85,380				89,378
Nonbudgeted Prior Year Expenditure Adjustments						(6,329)
Direct Entries to Fund Balance		425,524			410	
Total Reductions	<u>143,297,066</u>	<u>15,499,950</u>	<u>119,738,565</u>	<u>16,206,075</u>	<u>56,015,006</u>	<u>72,230,607</u>
FUND BALANCE: June 30, 1991	\$ 0	\$ 5,376,066	\$ 10,597,412	\$ 8,638,628	\$ 9,414,113	\$ 14,169,121

¹See note 11 on page 32.

²See note 10 on page 32.

³See note 5 on page 29.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 33.

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Licenses and Permits	Charges For Services	Investment Earnings	Fines & Forfeits	Rentals, Leases & Royalties	Miscellaneous	Other Financing Sources	Grants, Contracts, Donations & Abandonments	Sale of Documents, Merchandise & Property	Federal	Total
GENERAL FUND											
Estimated Revenue	\$180,000	\$ 51,001	\$19,660,000	\$ 600,000	\$ 5,000	\$ 5,500	\$45,098,001				\$65,599,502
Actual Revenue	<u>429,465</u>	<u>90,307</u>	<u>22,306,533</u>	<u>644,476</u>	<u>2,501</u>	<u>12,116</u>	<u>41,759,419</u>				<u>65,244,817</u>
Collections Over											
(Under) Estimate	<u>\$249,465</u>	<u>\$ 39,306</u>	<u>\$ 2,646,533</u>	<u>\$ 44,476</u>	<u>\$ (2,499)</u>	<u>\$ 6,616</u>	<u>\$ (3,338,582)</u>				<u>\$ (354,685)</u>
SPECIAL REVENUE FUND											
Estimated Revenue			\$ 315,003	\$1,732,000		\$ 700,000	\$ 662,566	\$150,000		\$ 2	\$ 3,559,571
Actual Revenue			<u>432,867</u>	<u>2,075,670</u>		<u>353,471</u>	<u>611,134</u>	<u>150,200</u>		<u>892,352</u>	<u>4,515,694</u>
Collections Over											
(Under) Estimate			<u>\$ 117,864</u>	<u>\$ 343,670</u>		<u>\$ (346,529)</u>	<u>\$ (51,432)</u>	<u>\$ 200</u>		<u>\$ 892,350</u>	<u>\$ 956,123</u>
DEBT SERVICE FUNDS											
Estimated Revenue		\$ 20,000	\$ 18,500								\$ 38,500
Actual Revenue		<u>19,476</u>	<u>19,110</u>								<u>38,586</u>
Collections Over											
(Under) Estimate		<u>\$ (524)</u>	<u>\$ 610</u>								<u>\$ 86</u>
CAPITAL PROJECTS FUNDS											
Estimated Revenue		\$ 87,500	\$ 527,600			\$ 10,000	\$ 1,500,500	\$ 50,000	\$1,200,000		\$ 3,375,600
Actual Revenue		<u>63,057</u>	<u>630,170</u>			<u>10,000</u>	<u>1,060,690</u>	<u>10</u>	<u>300,822</u>		<u>2,064,749</u>
Collections Over											
(Under) Estimate		<u>\$ (24,443)</u>	<u>\$ 102,570</u>			<u>\$ 0</u>	<u>\$ (439,810)</u>	<u>\$ (49,990)</u>	<u>\$ (899,178)</u>		<u>\$ (1,310,851)</u>
ENTERPRISE FUNDS											
Estimated Revenue		\$24,965,402	\$ 1,055,001			\$ 5,000					\$26,025,403
Actual Revenue		<u>27,724,569</u>	<u>1,171,381</u>			<u>20,028</u>					<u>28,915,978</u>
Collections Over											
(Under) Estimate		<u>\$ 2,759,167</u>	<u>\$ 116,380</u>			<u>\$ 15,028</u>					<u>\$ 2,890,575</u>
INTERNAL SERVICE FUNDS											
Estimated Revenue		\$31,617,214	\$ 651,000			\$ 20,100	\$ 1,734,643		\$3,273,922		\$37,296,879
Actual Revenue		<u>32,948,224</u>	<u>650,023</u>			<u>141,017</u>	<u>477,619</u>		<u>3,339,888</u>		<u>37,556,771</u>
Collections Over											
(Under) Estimate		<u>\$ 1,331,010</u>	<u>\$ (977)</u>			<u>\$ 120,917</u>	<u>\$ (1,257,024)</u>		<u>\$ 65,966</u>		<u>\$ 259,892</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 33.

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Licenses and Permits	Charges For Services	Investment Earnings	Fines & Forfeits	Rentals, Leases & Royalties	Miscellaneous	Other Financing Sources	Grants, Contracts, Donations & Abandonments	Federal	Sale of Documents, Merchandise & Property	Total
GENERAL FUND											
Estimated Revenue	\$ 80,000	\$ 51,501	\$20,097,200	\$ 500,000	\$5,000	\$ 11,000	\$41,342,001				\$62,086,702
Actual Revenue	<u>198,765</u>	<u>64,074</u>	<u>25,869,827</u>	<u>602,244</u>	<u>4,677</u>	<u>0</u>	<u>47,839,057</u>				<u>74,378,644</u>
Collections Over (Under) Estimate	<u>\$118,765</u>	<u>\$ 12,573</u>	<u>\$ 5,772,627</u>	<u>\$ 102,244</u>	<u>\$ (323)</u>	<u>\$ (11,000)</u>	<u>\$ 6,497,056</u>				<u>\$12,491,942</u>
SPECIAL REVENUE FUND											
Estimated Revenue		\$ 206,110	\$ 340,557	\$1,673,000		\$ 600,000	\$ 729,586		\$ 560,001		\$ 4,109,254
Actual Revenue		<u>0</u>	<u>468,073</u>	<u>2,007,493</u>		<u>205,956</u>	<u>560,311</u>		<u>1,073,612</u>		<u>4,315,445</u>
Collections Over (Under) Estimate		<u>\$(206,110)</u>	<u>\$ 127,516</u>	<u>\$ 334,493</u>		<u>\$(394,044)</u>	<u>\$ (169,275)</u>		<u>\$ 513,611</u>		<u>\$ 206,191</u>
DEBT SERVICE FUNDS											
Estimated Revenue		\$ 20,000	\$ 20,000								\$ 40,000
Actual Revenue		<u>16,230</u>	<u>24,939</u>								<u>41,169</u>
Collections Over (Under) Estimate		<u>\$(3,770)</u>	<u>\$ 4,939</u>								<u>\$ 1,169</u>
CAPITAL PROJECTS FUNDS											
Estimated Revenue		\$ 87,500	\$ 457,500			\$ 10,000	\$ 5,307,168	\$50,000	\$ 4,000,000		\$ 9,912,168
Actual Revenue		<u>60,936</u>	<u>645,122</u>			<u>10,000</u>	<u>6,334,858</u>	<u>56,719</u>	<u>2,056,820</u>		<u>9,164,655</u>
Collections Over (Under) Estimate		<u>\$(26,564)</u>	<u>\$ 187,622</u>			<u>\$ 0</u>	<u>\$ 1,027,690</u>	<u>\$ 6,719</u>	<u>\$(1,943,180)</u>		<u>\$(747,713)</u>
ENTERPRISE FUNDS											
Estimated Revenue		\$21,931,332	\$ 1,266,000			\$ 5,000					\$23,202,332
Actual Revenue		<u>21,591,318</u>	<u>1,375,855</u>			<u>785</u>					<u>22,967,958</u>
Collections Over (Under) Estimate		<u>\$(340,014)</u>	<u>\$ 109,855</u>			<u>\$(4,215)</u>					<u>\$ (234,374)</u>
INTERNAL SERVICE FUNDS											
Estimated Revenue		\$29,918,850	\$ 756,500			\$ 20,100	\$ 1,929,269			\$3,178,669	\$35,803,388
Actual Revenue		<u>29,668,190</u>	<u>629,857</u>			<u>2,300</u>	<u>2,227,966</u>			<u>3,187,080</u>	<u>35,715,393</u>
Collections Over (Under) Estimate		<u>\$(250,660)</u>	<u>\$(126,643)</u>			<u>\$(17,800)</u>	<u>\$ 298,697</u>			<u>\$ 8,411</u>	<u>\$(87,995)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 33.

Long Range Building Program			
	Departments and Agencies	University System	Institutions
			Total
PERSONAL SERVICE			
Salaries			\$ 7,490,879
Other Compens			43,825
Employee Bene			1,710,101
Total			<u>9,244,805</u>
OPERATING EXPEN			
Other Service	\$ 18		4,985,902
Supplies & Ma			452,333
Communication			7,656,873
Travel			163,309
Rent			1,745,720
Utilities			1,119,227
Repair & Main			1,045,090
Other Expense			222,917
Goods Purchas			7,162,393
Total	<u>18</u>		<u>24,553,764</u>
EQUIPMENT AND I			
Equipment	11,696	\$ 7,505	843,660
Capital Lease			(2,141)
Intangible As			161,007
Total	<u>11,696</u>	<u>7,505</u>	<u>1,002,526</u>
CAPITAL OUTLAY			
Land and Inte	9,000		9,000
Buildings	4,271,475	\$ 1,491,147	7,094,719
Other Improve	2,749		41,278
Total	<u>4,283,224</u>	<u>1,491,147</u>	<u>7,144,997</u>
LOCAL ASSISTANC			
From State So			262,093
From Other In			977,639
Total			<u>1,239,732</u>
BENEFITS & CLAI			
From State So			28,190,902
Insurance Pay			3,304,918
Total			<u>31,495,820</u>
TRANSFERS			
Accounting En	504,178	8,009	14,675,112
Total	<u>504,178</u>	<u>8,009</u>	<u>14,675,112</u>
DEBT SERVICE			
Bonds			37,988
Leases			3,580
Installment P			2,615,293
Lease Particip			1,517,980
Total			<u>4,174,841</u>
TOTAL PROGRAM E	<u>\$ 4,799,116</u>	<u>\$ 1,499,156</u>	<u>\$ 1,168,847</u>
GENERAL FUND			
Budgeted		\$ 3,000,000	\$20,580,289
Actual		0	15,518,143
Unspent Budget		<u>\$ 3,000,000</u>	<u>\$ 5,062,146</u>
SPECIAL REVENUE			
Budgeted	\$37,587,753	\$ 3,699,237	\$44,291,607
Actual	2,758,301	0	5,394,055
Unspent Budget	<u>\$34,829,452</u>	<u>\$ 3,699,237</u>	<u>\$38,897,552</u>
CAPITAL PROJECT			
Budgeted	\$10,916,072	\$38,748,175	\$43,243,935
Actual	1,973,177	1,499,156	6,220,615
Unspent Budget	<u>\$ 8,942,895</u>	<u>\$37,249,019</u>	<u>\$42,075,088</u>
ENTERPRISE FUND			
Budgeted	\$ 213,543		\$32,672,666
Actual	67,638		29,237,527
Unspent Budget	<u>\$ 145,905</u>		<u>\$ 3,435,139</u>
INTERNAL SERVICE			
Budgeted	\$ 50,000		\$40,468,616
Actual	0		37,161,257
Unspent Budget	<u>\$ 50,000</u>		<u>\$ 3,307,359</u>

¹ See note 15 on

This schedule is

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Director's Office	Accounting	Architecture & Engineering Program	Procurement & Printing Division	Information Services Division	General Services	Mail & Distribution Bureau	Centralized Services Division	State Personnel Division	Tort Claims Division	State Tax Appeal Board	Bonds & Tans	Departments and Agencies	Long Range Building Program University System	Institutions	Total
PERSONAL SERVICES																
Salaries	\$217,731	\$ 567,048	\$ 366,675	\$ 1,175,107	\$ 3,265,907	\$ 511,297	\$ 161,387		\$ 814,505	\$ 258,753	\$152,469					\$ 7,490,879
Other Compensation	50										43,775					43,825
Employee Benefits	44,285	126,778	79,367	291,714	710,674	132,905	49,775		188,784	55,959	29,860					1,711,101
Total	<u>262,066</u>	<u>693,826</u>	<u>446,042</u>	<u>1,466,821</u>	<u>3,976,581</u>	<u>644,202</u>	<u>211,162</u>		<u>1,003,289</u>	<u>314,712</u>	<u>212,104</u>					<u>9,246,805</u>
OPERATING EXPENSES																
Other Services	5,339	310,458	36,093	107,686	562,297	1,170,555	3,305	\$2,538	826,393	1,942,120	19,100		\$ 18			4,985,902
Supplies & Materials	2,589	5,853	5,543	25,246	290,181	83,270	3,496		18,320	13,335	4,500					452,333
Communications	5,096	17,190	12,608	77,173	6,036,423	10,456	1,441,415		37,235	11,588	7,689					7,656,873
Travel	1,014	323	17,213	20,523	68,533	9,633	9,295		17,284	9,766	9,725					163,309
Rent	8,460	21,294	25,752	154,125	1,151,827	313,773	11,765		43,136	7,336	8,252					1,745,720
Utilities				14,960	1,102	1,103,165										1,119,227
Repair & Maintenance	6,138	7,736	3,784	333,489	502,451	166,270	12,984		6,164	3,123	2,931					1,045,090
Other Expenses	1,061	6,769	1,323	12,023	117,182	20,399	486		40,623	21,361	1,690					222,917
Goods Purchased For Resale				7,169,749	12,644											7,169,749
Total	<u>29,697</u>	<u>369,643</u>	<u>102,316</u>	<u>7,894,974</u>	<u>8,742,640</u>	<u>2,877,521</u>	<u>1,482,746</u>	<u>2,538</u>	<u>989,155</u>	<u>2,008,629</u>	<u>53,887</u>		<u>18</u>			<u>26,553,764</u>
EQUIPMENT AND INTANGIBLE ASSETS																
Equipment	3,571	34,495	125	123,354	564,046	21,140	2,961		26,972	37,193	10,602		11,696		\$ 7,505	843,660
Capital Leases - Equipment						(2,141)										(2,141)
Intangible Assets		9,611	19	123	144,920	1,644			3,255	1,426						161,007
Total	<u>3,571</u>	<u>44,106</u>	<u>144</u>	<u>123,477</u>	<u>708,972</u>	<u>20,643</u>	<u>2,961</u>		<u>30,227</u>	<u>38,619</u>	<u>10,602</u>		<u>11,696</u>		<u>7,505</u>	<u>1,002,526</u>
CAPITAL OUTLAY																
Land and Interest in Land														9,000		9,000
Buildings										170,755				4,271,475	\$ 1,491,147	7,094,719
Other Improvements				11,975	26,554										1,161,342	2,728
Total				<u>11,975</u>	<u>26,554</u>					<u>170,755</u>				<u>4,283,222</u>	<u>1,491,147</u>	<u>7,114,997</u>
LOCAL ASSISTANCE																
From State Sources					256,536							5,557				262,093
From Other Income Sources					977,639											977,639
Total					<u>1,234,175</u>							<u>5,557</u>				<u>1,239,732</u>
BENEFITS & CLAIMS																
From State Sources									28,190,902							28,190,902
Insurance Payments						3,000				3,301,918						3,304,918
Total						<u>3,000</u>			<u>28,190,902</u>	<u>3,301,918</u>						<u>31,495,820</u>
TRANSFERS																
Accounting Entity Transfers		13,155,449	549,362		422,406	58,801						\$ (23,093)	504,178	8,009		14,675,112
Total		<u>13,155,449</u>	<u>549,362</u>		<u>422,406</u>	<u>58,801</u>						<u>(23,093)</u>	<u>504,178</u>	<u>8,009</u>		<u>14,675,112</u>
DEBT SERVICE																
Bonds					37,988											37,988
Leases									3,580							3,580
Installment Purchases				89,380	2,525,913											2,615,293
Lease Participation Notes					1,517,980											1,517,980
Total				<u>89,380</u>	<u>4,081,681</u>				<u>3,580</u>							<u>4,174,841</u>
TOTAL PROGRAM EXPENDITURES	<u>\$295,334</u>	<u>\$14,263,024</u>	<u>\$1,097,864</u>	<u>\$ 9,586,627</u>	<u>\$10,193,212</u>	<u>\$3,604,167</u>	<u>\$1,696,869</u>	<u>\$2,538</u>	<u>\$30,217,153</u>	<u>\$ 5,834,633</u>	<u>\$296,150</u>	<u>\$ (23,093)</u>	<u>\$ 4,799,116</u>	<u>\$ 1,499,156</u>	<u>\$ 1,168,847</u>	<u>\$25,531,597</u>
GENERAL FUND																
Budgeted	\$279,684	\$14,283,903		\$ 435,967	\$ 727,088	\$ 365,725	\$ 2,300	\$5,061	\$ 1,066,635		\$413,926		\$ 3,000,000			\$20,580,289
Actual	233,775	12,749,734		390,973	641,133	312,883	2,300	2,538	886,657		296,150					15,518,143
Unspent Budget Authority	<u>\$ 45,909</u>	<u>\$ 1,534,169</u>		<u>\$ 44,994</u>	<u>\$ 85,955</u>	<u>\$ 27,842</u>	<u>\$ 0</u>	<u>\$ 2,523</u>	<u>\$ 177,978</u>		<u>\$117,776</u>					<u>\$ 3,062,146</u>
SPECIAL REVENUE FUND																
Budgeted		\$ 488,937	\$ 601,378		\$ 1,414,302				\$ 500,000			\$ 0	\$37,587,753		\$ 3,699,237	\$44,291,607
Actual		511,823	568,502		1,405,154				193,368			(23,093)	2,758,301		0	5,394,655
Unspent Budget Authority		<u>\$ (22,886)</u>	<u>\$ 32,876</u>		<u>\$ 9,148</u>				<u>\$ 306,632</u>			<u>\$ 23,093</u>	<u>\$34,829,452</u>		<u>\$ 3,699,237</u>	<u>\$36,897,552</u>
CAPITAL PROJECTS FUNDS																
Budgeted	\$ 1,500,000		\$ 600,931			\$ 58,801			\$10,916,072				\$38,748,175		\$43,243,935	\$95,067,914
Actual	971,272		549,362			58,801			1,975,177				1,499,156		1,168,847	6,220,615
Unspent Budget Authority	<u>\$ 528,728</u>		<u>\$ 51,569</u>			<u>\$ 0</u>			<u>\$ 8,942,895</u>				<u>\$37,249,019</u>		<u>\$42,075,088</u>	<u>\$88,847,299</u>
ENTERPRISE FUNDS																
Budgeted								\$32,459,123					\$ 213,543			\$32,672,666
Actual								29,169,889					67,636			29,237,527
Unspent Budget Authority								<u>\$ 3,289,234</u>					<u>\$ 145,905</u>			<u>\$ 3,435,139</u>
INTERNAL SERVICE FUNDS																
Budgeted	\$ 63,208	\$ 32,759		\$10,061,187	\$17,470,465	\$3,341,375	\$1,704,908		\$ 184,776	\$ 7,559,938			\$ 50,000			\$40,468,616
Actual	61,559	30,195		9,195,654	17,146,925	3,232,483	1,696,569		158,607	5,641,265			0			37,161,257
Unspent Budget Authority	<u>\$ 1,649</u>	<u>\$ 2,564</u>		<u>\$ 865,533</u>	<u>\$ 323,540</u>	<u>\$ 108,892</u>	<u>\$ 10,339</u>		<u>\$ 26,169</u>	<u>\$ 1,918,673</u>			<u>\$ 50,000</u>			<u>\$ 3,307,359</u>

See note 15 on page 33.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 33.

Long Range Building Program

	Departments and Agencies	University System	Institutions	Total
PERSONAL SERVICES				
Salaries				\$ 7,108,433
Hourly Wages				110
Other Compensation				32,166
Employee Benefits				<u>1,586,072</u>
Total				<u>8,726,781</u>
OPERATING EXPENSE				
Other Services	\$ 5			5,456,686
Supplies & Materials			\$ 467	401,134
Communications				6,564,695
Travel	2,104			173,014
Rent				1,369,173
Utilities			126	1,036,769
Repair & Maintenance				1,016,425
Other Expenses			88	172,526
Goods Purchased				<u>6,983,109</u>
Total	<u>2,109</u>		<u>681</u>	<u>23,173,531</u>
EQUIPMENT AND INTANGIBLE ASSETS				
Equipment	197,310	1,557	5,332	1,437,162
Capital Leases				(1,468)
Intangible Assets				196,264
Total	<u>197,310</u>	<u>1,557</u>	<u>5,332</u>	<u>1,631,958</u>
CAPITAL OUTLAY				
Land & Interest	90,105			90,105
Buildings	6,250,134	808,089	1,945,505	9,007,027
Other Improvements	362,758	20,452	63,420	472,592
Total	<u>6,702,997</u>	<u>828,541</u>	<u>2,008,925</u>	<u>9,569,724</u>
LOCAL ASSISTANCE				
From State Source				2,876
From Other Income				<u>939,650</u>
Total				<u>942,526</u>
BENEFITS & CLAIMS				
From State Source				24,558,172
Insurance Payments				<u>1,483,439</u>
Total				<u>26,041,611</u>
TRANSFERS				
Accounting Entitlement	532,990	1,165,789		38,242,671
Total	<u>532,990</u>	<u>1,165,789</u>		<u>38,242,671</u>
DEBT SERVICE				
Bonds	36,414			72,130
Leases				1,807
Installment Purchase				2,109,946
Lease Participation				<u>1,407,940</u>
Total	<u>36,414</u>			<u>3,591,823</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 7,471,820</u>	<u>\$1,995,887</u>	<u>\$2,014,938</u>	<u>\$111,920,625</u>
GENERAL FUND				
Budgeted				\$ 37,916,109
Actual				<u>35,244,009</u>
Unspent Budget				<u>\$ 2,672,100</u>
SPECIAL REVENUE FUNDS				
Budgeted	\$15,957,060			\$ 19,016,193
Actual	<u>3,640,643</u>			<u>5,933,701</u>
Unspent Budget	<u>\$12,316,417</u>			<u>\$ 13,082,492</u>
CAPITAL PROJECTS				
Budgeted	\$13,655,060	\$5,058,233	\$3,554,137	\$ 25,007,532
Actual	<u>3,822,947</u>	<u>1,995,887</u>	<u>2,014,938</u>	<u>9,982,745</u>
Unspent Budget	<u>\$ 9,832,113</u>	<u>\$3,062,346</u>	<u>\$1,539,199</u>	<u>\$ 15,024,787</u>
ENTERPRISE FUNDS				
Budgeted	\$ 170,000			\$ 28,559,001
Actual	<u>8,230</u>			<u>25,745,153</u>
Unspent Budget	<u>\$ 161,770</u>			<u>\$ 2,813,848</u>
INTERNAL SERVICE				
Budgeted				\$ 38,950,335
Actual				<u>35,015,017</u>
Unspent Budget				<u>\$ 3,935,318</u>

¹See note 5 on page 10

This schedule is

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Director's Office		Architecture & Engineering Program	Procurement & Printing Division	Information Services Division	General Services	Mail & Distribution Bureau	Centralized Services Division	State Personnel Division	Tort Claims Division	State Tax Appeal Board	Long Range Building Program			
	Office	Accounting										Departments and Agencies	University System	Institutions	Total
PERSONAL SERVICES															
Salaries	\$167,918	\$ 491,347	\$ 349,612	\$1,001,629	\$ 3,139,964	\$ 570,471	\$ 144,860		\$ 827,647	\$ 246,866	\$168,119				\$ 7,108,433
Hourly Wages					110										110
Other Compensation	100														32,166
Employee Benefits	32,376	106,723	73,958	248,491	662,261	150,267	43,601		182,247	52,308	33,840				1,586,072
Total	200,394	598,070	423,570	1,250,120	3,802,335	720,738	188,461		1,009,894	299,174	234,023				8,726,781
OPERATING EXPENSES															
Other Services	5,553	342,619	28,899	114,959	493,928	1,007,281	3,346	\$ 2,322	1,059,573	2,375,637	22,564	\$ 5			5,456,686
Supplies & Materials	4,066	5,011	6,992	24,497	234,932	70,976	1,751		25,058	19,200	6,201			467	401,134
Communications	5,032	20,744	15,250	72,107	5,290,095	9,153	1,085,011		45,811	13,483	8,009				6,564,695
Travel	1,306	524	18,112	10,166	7,130	6,307			21,617	24,140	10,997	2,104			173,014
Rent	8,089	20,589	24,770	138,334	853,837	256,810	11,415		41,292	7,017					1,369,173
Utilities				13,206	972	1,022,465									1,036,769
Repair & Maintenance	1,616	7,673	4,928	321,936	400,320	257,214	9,193		5,139	3,511	4,895			126	1,016,425
Other Expenses	2,090	5,015	1,625	18,529	64,159	26,356	250		40,827	12,707	880			88	172,526
Goods Purchased For Resale				6,965,728	10,778					6,603					6,983,109
Total	27,752	402,175	100,576	7,619,462	7,421,636	2,657,385	1,117,253	2,322	1,239,317	2,462,298	60,565	2,109		681	23,173,531
EQUIPMENT AND INTANGIBLE ASSETS															
Equipment	792	6,413	2,187	113,504	1,082,685	6,520	530		2,345	4,151	13,836	197,310	1,557	5,332	1,437,162
Capital Leases - Equipment		616		(1,468)											(1,468)
Intangible Assets				8,011	184,294	654					1,377				195,264
Total	792	7,029	3,499	120,047	1,266,979	7,174	530		2,345	4,151	15,213	197,310	1,557	5,332	1,631,958
CAPITAL OUTLAY															
Land & Interest in Land															
Buildings					1,761	1,538						90,105			90,105
Other Improvements				25,962								6,250,134	808,089	1,945,505	9,007,027
Total				25,962	1,761	1,538						362,758	20,452	63,420	472,592
												6,702,997	828,541	2,008,925	9,569,724
LOCAL ASSISTANCE															
From State Sources					939,650							2,876			2,876
From Other Income Sources															939,650
Total					939,650							2,876			942,526
BENEFITS & CLAIMS															
From State Sources									24,558,172						24,558,172
Insurance Payments										1,483,439					1,483,439
Total									24,558,172	1,483,439					26,041,611
TRANSFERS															
Accounting Entity Transfers	13,812,338	500,000			272,785	58,769		20,000,000 ¹		1,900,000 ¹		532,990	1,165,789		38,242,671
Total	13,812,338	500,000			272,785	58,769		20,000,000		1,900,000		532,990	1,165,789		38,242,671
DEBT SERVICE															
Bonds					35,716							36,414			72,130
Leases									1,807						1,807
Installment Purchases				27,632	2,082,314										2,109,946
Lease Participation Notes					1,407,960										1,407,960
Total				27,632	3,525,970				1,807			36,414			3,591,823
TOTAL PROGRAM EXPENDITURES	\$228,938	\$14,819,612	\$1,027,645	\$9,103,223	\$17,231,116	\$3,445,604	\$1,306,244	\$20,002,322	\$26,811,535	\$6,149,062	\$312,679	\$ 7,471,820	\$1,995,887	\$2,014,938	\$111,920,625
GENERAL FUND															
Budgeted	\$266,995	\$14,259,955		\$ 446,201	\$ 1,125,000	\$ 380,105		\$20,000,000	\$ 1,010,352		\$427,501				\$ 37,916,109
Actual	177,720	12,803,457		381,429	397,412	255,915		20,002,322	913,075		312,679				35,244,009
Unspent Budget Authority	\$ 89,275	\$ 1,456,498		\$ 64,772	\$ 727,588	\$ 124,190		\$ (2,322)	\$ 97,277		\$114,822				\$ 2,672,100
SPECIAL REVENUE FUND															
Budgeted		\$ 482,530	\$ 581,301		\$ 1,495,302					\$ 500,000		\$15,957,060			\$ 19,016,193
Actual		397,091	527,645		1,307,363					60,959		3,640,443			5,933,701
Unspent Budget Authority		\$ 85,439	\$ 53,656		\$ 187,939					\$ 439,041		\$12,316,617			\$ 13,082,492
CAPITAL PROJECTS FUNDS															
Budgeted		\$ 2,100,000	\$ 581,301			\$ 58,801						\$13,655,060	\$5,058,233	\$3,554,137	\$ 25,007,532
Actual		1,590,204	500,000			58,769						3,822,947	1,995,887	2,014,938	9,982,765
Unspent Budget Authority		\$ 509,796	\$ 81,301			\$ 32						\$ 9,832,113	\$3,062,346	\$1,539,199	\$ 15,024,787
ENTERPRISE FUNDS															
Budgeted									\$28,389,001			\$ 170,000			\$ 28,559,001
Actual									25,736,923			8,230			25,745,153
Unspent Budget Authority									\$ 2,652,078			\$ 161,770			\$ 2,813,848
INTERNAL SERVICE FUNDS															
Budgeted	\$ 61,625	\$ 31,631		\$9,445,550	\$17,002,105	\$3,303,349	\$1,341,801		\$ 182,848	\$7,581,426					\$ 38,950,335
Actual	51,218	28,860		8,721,794	15,526,341	\$ 3,130,920	1,306,244		161,537	6,088,103					35,015,017
Unspent Budget Authority	\$ 10,407	\$ 2,771		\$ 723,756	\$ 1,475,764	\$ 172,429	\$ 35,557		\$ 21,311	\$1,493,323					\$ 3,935,318

¹ See note 5 on page 29.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 33.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1991

Summary of Significant Accounting Policies

Basis of Accounting

The Department of Administration uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

The Department of Administration uses accrual basis accounting for the Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable; they record expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedules format is in accordance with the policy of the Legislative Audit Committee. The schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include

Notes to the Financial Schedules

architecture and engineering construction, airport loans, 911 program, oil overcharge money, and various benefit programs (i.e., crime victims benefits and battered spouse).

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for bond payments for the 1989A, 1985A, and 1983B bonds.

Capital Projects Fund - to account for resources used for purchase or construction of major capital facilities. The department accounts for the long range building program in this fund.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the group benefits plan.

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include central stores, printing, data processing, telecommunications, maintenance, mail distribution, and self-insurance services.

Fiduciary Funds

Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include deferred compensation contributions and investments, and construction advances.

2. Compensated Leave

Employees at the department accumulate both annual and sick leave. Nonexempt employees accumulate compensation leave covered by the Fair Labor Standards Act. The department pays employees for 100 percent of unused annual leave credits, 25 percent of unused sick leave credits and 100 percent of unused Fair Labor Standards Act leave credits upon termination.

Notes to the Financial Schedules

Accumulated unpaid liabilities for annual and sick leave, and compensatory time are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1990 and at June 30, 1991, the department had a liability of \$559,431 and \$620,829 for vacation leave and \$275,977 and \$299,449 for sick leave, and \$7,082 and \$9,500 for Fair Labor Standards Act leave, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to PERS was \$453,932 in fiscal year 1990 and \$471,044 in fiscal year 1991.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Transfers

The legislature enacted a one-time \$20 million transfer from the General Fund to the State Compensation Mutual Insurance Fund in fiscal year 1989-90. The department budgeted and made the transfer from the Centralized Services Division.

The \$1.9 million transfer in the Tort Claims program in fiscal year 1989-90 moves moneys from the self-insurance fund to the insurance premium operating fund. The department consolidated the two funds in fiscal year 1990-91.

Notes to the Financial Schedules

6. Debt Disclosure

The department's long-term debt at June 30, 1991 consisted of the following:

General Obligation Bonds	\$67,365,000
Telecommunications Lease Purchase Certificate	2,090,000
SRS Lease Purchase Agreement	<u>756,724</u>
Total	<u>\$70,211,724</u>

7. Self-Insurance Funds

The department maintains several self-insurance plans. A brief description of each plan and the method of recording transactions are discussed below.

Group Employee Comprehensive Medical and Dental Plan -

This plan is fully self-insured, with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. Organ transplants have been reinsured with Blue Cross and Blue Shield of Montana, which also administers the plan under contract. There is no third party coverage.

Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Enterprise Fund. A liability has been recorded in the department's records for these estimated claims.

Property Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory, and inland marine. The State self insures the \$150,000 deductible per occurrence for property insurance. A reinsurer pays the next \$50 million per occurrence. Premiums are collected from all State agencies including higher education units and recorded as revenue in the Administration Insurance Internal Service Fund. The most recent actuarial report, prepared by Coopers and Lybrand and issued for the accident period 7-1-77 to 6-30-90, estimated that the present fund balance reserve is insufficient by \$14.1 million.

Notes to the Financial Schedules

8. Fixed Assets

The department is responsible for recording land, buildings, and construction work in progress for all state agencies except as noted below:

Higher Education Units	Department of Highways
Full Accrual Funds	State Compensation Mutual Insurance Fund
Expendable Trust Funds	Department of Fish, Wildlife & Parks
Institutions	Unemployment Insurance Division
Department of State Lands	School for the Deaf and Blind
Department of Military Affairs	
Fire Services Training School	

The department also does not record property located outside of Helena but owned by agencies located in Helena. The department's fixed asset balances at July 1, 1989, and June 30, 1991, and the net changes in these balances are shown below:

Schedule of Changes in Fixed Assets

	Balance at <u>7/1/89</u>	Net Changes <u>In Balances</u>	Balance at <u>6/30/91</u>
<u>Enterprise Fund</u>			
Equipment	\$ 21,741	\$ 2,189	\$ 23,930
Less Accumulated Depreciation	(7,614)	(4,663)	(12,277)
Net Fixed Assets	<u>\$ 14,127</u>	<u>\$ (2,474)</u>	<u>\$ 11,653</u>
<u>Internal Service Fund</u>			
Equipment	\$25,613,163	\$ 2,673,279	\$ 28,286,442
Less Accumulated Depreciation	(12,456,411)	(6,006,820)	(18,463,231)
Net Fixed Assets	<u>\$13,156,752</u>	<u>\$ (3,333,541)</u>	<u>\$ 9,823,211</u>
<u>General Fixed Asset Account Group</u>			
Buildings and Other Improvements	\$32,684,776	\$ 5,877,337	\$ 38,562,113
Land	2,490,669	203,580	2,694,249
Construction In Progress	2,217,653	(1,795,286)	422,367
Equipment	646,905	(76,035)	570,870
Museum	74,000	5,000	79,000
Total	<u>\$38,114,003</u>	<u>\$ 4,214,596</u>	<u>\$ 42,328,599</u>

9. Contingencies

The state is a defendant in numerous lawsuits involving tort claims. Department management evaluated, on a case-by-case basis, unpaid claims filed with the state. Based on this evaluation, management estimates that as of June 30, 1991, the Administration Insurance Internal Service Fund has a reasonably possible liability of \$7.382 million for these claims.

Notes to the Financial Schedules

10. Cash Transfers

The "cash transfers in" recorded in the debt service fund represent a statutory percentage of collections from corporate license and income taxes by the Department of Revenue.

11. Direct Entries to Fund Balance

The significant portions of direct entries to fund balance in the General Fund, Special Revenue Fund, and Internal Service Fund consist of the following:

- A. The direct entries to fund balance in the General Fund for fiscal year 1989-90 consist of transactions processed to clear out the Insurance and Securities Regulatory Trust accounts. Chapter 351, Laws of 1989, eliminated the Insurance and Securities accounts.

The Department of Administration, Accounting Bureau, processed transactions to clear out the Insurance and Securities Regulatory Trust Account fund balances at the end of fiscal year 1988-89. The State Auditor's Office restored the fund balances in the regulatory accounts during fiscal year 1989-90 in order to complete transactions prior to the final closing out of the regulatory accounts. Final closing transactions results in a General Fund direct entry to fund balance on the Department of Administration's records of \$2,096,046 for fiscal year 1989-90, and a prior year transfer-in adjustment of \$2,094,114.

- B. Transfers of oil overcharge moneys from the Department of Administration to various other agencies as authorized by the legislature in House Bill 621, Laws of 1987.
- C. Inventory adjustments to property and supply in accordance with state accounting policy.

12. Reorganization

The Accounting and Centralized Services Divisions are now consolidated as the Accounting and Management Support Division. The new division's organization structure provides for an Accounting Bureau; Management Support Bureau; and Personnel Unit. In addition, Information Services Division has undergone a major reorganization since the last audit. The organizational structure for the division includes Office of Policy, Research and Development; Telecom/Network Bureau;

Notes to the Financial Schedules

Application Services Bureau; and Central Computer Operations Bureau.

13. Tax Anticipation Notes

On November 6, 1991, the State issued \$85,000,000 in Tax and Revenue Anticipation Notes, Series 1991, due June 25, 1992. The proceeds of the Notes will provide cash to support expenditures from the General Fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1992.

14. Deferred Compensation Plan

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the two fiscal years ended June 30, 1991, (in thousands):

Fund Assets (at market value), July 1, 1989	\$57,229
Deferrals of compensation	12,538
Earnings and adjustment to market value	11,337
Payments to eligible participants and beneficiaries	(9,826)
Administrative Expenses	<u>(604)</u>
Fund Assets (at market value), June 30, 1991	<u>\$70,674</u>

15. Expenditure Abatement

The department reduced expenditures by \$23,093 from an appropriation in the Bonds and Tax and Revenue Anticipation Notes program in fiscal year 1990-91 following the transfer of authority to the accounting program in the department reorganization. In effect the expenditure reduction occurred in the accounting program. Therefore, the department did not overexpend budget authority in the Special Revenue Fund for fiscal year 1990-91.

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



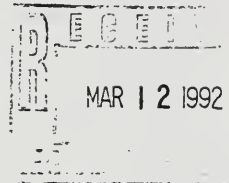
STAN STEPHENS, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032

HELENA, MONTANA 59620



March 11, 1992

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol Building
Helena, Montana 59620

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the financial-compliance audit of the Department of Administration for the two fiscal years ended June 30, 1991. Our response to each recommendation follows:

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT ESTABLISH WRITTEN PROCEDURES TO ENSURE THE TIMELY CLOSEOUT OF APPROPRIATIONS AFTER PROJECTS ARE COMPLETE.

Response

We concur. This recommendation has been implemented as of February 1992.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT CHARGE CONSTRUCTION PROJECTS FOR SERVICES PROVIDED BY THE ARCHITECTURE AND ENGINEERING DIVISION.

Response

We concur. The Architecture and Engineering Division will charge the Risk Management and Tort Defense Division supervisory fees for all construction contracts funded with insurance fund moneys starting with those awarded in Fiscal Year 1992.

The Architecture and Engineering Division is meeting with officials from the Department of Military Affairs in March 1992 to ascertain if supervisory fees are an allowable cost for Military Affairs' projects. If the fees are determined to be an allowable cost, the

Scott A. Seacat
March 11, 1992
Page 2

Architecture and Engineering Division will charge Military Affairs supervisory fees for all construction contracts awarded as of Fiscal Year 1992.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT ESTABLISH WRITTEN PROCEDURES FOR DEFERRED COMPENSATION WHICH INCLUDE THE RESOLUTION OF ALL DIFFERENCES BETWEEN THE DEPARTMENT'S RECORDS AND PLAN INVESTMENT REPORTS.

Response

We concur. We are currently applying the reconciliation process recommended in the Fiscal Year 1989 audit report to up date the reconciliation of investments and deferrals. We will document these procedures in a manual to insure that they are properly applied through staff changes.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT DEVELOP A SYSTEM TO ADEQUATELY MONITOR PLEDGED SECURITY LEVELS AND BANK SUBSTITUTION OF SECURITY.

Response

We concur. We are aware that pledged collateral is inadequate at banks receiving deposits from university system units during registration. Treasury Unit personnel have discussed this problem with the banks, and they are unwilling to do the additional paperwork to cover increased bank balances for only two to three days every quarter or semester. We are in the process of bidding banking services for university accounts and plan to include the requirement for increased collateral during registration in the invitation for bid.

Currently, safekeeping banks are required by statute to notify the Treasury Unit in writing of security substitutions as they occur. In addition, once a year the Treasury Unit receives a complete list of securities held by the safekeeping banks who are responsible for this function. This list is reconciled to the current list, and any differences are discussed with the banks. Security substitutions without the Treasury Unit's knowledge are rare and have not occurred on a regular basis. Also, the security substituted has always been the same value as the original security.

We will request that the safekeeping banks provide the Treasury Unit with an updated list of securities each time a security

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substitution occurs. The Treasury Unit will then reconcile the bank's list with their list to ensure all substitutions have been noted. We will follow up with those banks that fail to notify us of security substitutions. This procedure will be implemented in June 1992.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES WHICH ENSURE THE ACCOUNTING RECORDS ARE IN ACCORDANCE WITH STATE ACCOUNTING POLICY AND LAW.

Response

We concur. We will review all revenue classes which currently exist within the Department for proper classification during the turnaround process in May 1992. We will correct any revenue classes which are found to be incorrect during that time so that Fiscal Year 1993 revenues are reflected correctly in SBAS.

New revenue classes created within the Department of Administration will be subject to review by both Management Support Bureau and Accounting Bureau personnel prior to establishment.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT LIMIT USER ACCESS TO SBAS BACK-UP DATA SETS.

Response

We concur. We will eliminate the back-up files for the RJE ICC transactions since they are used only if the disc drive malfunctions. Since the disc drive has not malfunctioned to date, it is more cost effective to contact only those 3 agencies which currently submit ICC transactions through RJE, when there is a problem, then to establish and maintain security for all personnel who submit RJE files for the 15 agencies which RJE and who could possibly access the RJE ICC transaction back-up files. The Accounting Bureau will notify the 3 agencies affected so each will retain the original RJE ICC transaction files as back-up until the transactions actually process.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT REVIEW ACCESS RULES OF ITS MAINFRAME USERS FOR COMPLIANCE WITH DEPARTMENT ACCEPTED STANDARDS ON PASSWORD CHANGES.

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Response

We concur. We have reviewed, and will continue to review, access to the mainframe by Department of Administration users to identify exceptions to the recommended 90 day password limit which create a security infraction.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT DEVELOP PROCEDURES TO ENSURE ACCESS LEVELS ENTERED INTO OE&E MATCH THE LEVELS AUTHORIZED BY THE AGENCIES.

Response

We concur. Accounting Bureau personnel will review the OE&E form used by agencies to request agency and user controls. Changes made to the form along with more specific instructions to the agencies should make completion of the form more consistent and less subject to interpretation by Accounting Bureau personnel entering the level of access on the OE&E database. Comparison of new forms submitted for an individual user to forms previously submitted for the same user and on file in the Bureau should also help clarify what level of access is requested for an individual. Bureau personnel entering access changes on the OE&E database will review all screens to ensure data is entered properly.

DISCLOSURE ISSUE

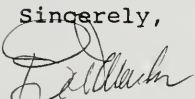
The Department recognizes it has earned excess investment interest on the 1985A Bond Issue as well as the 1983B Bond Issue as a result of unspent bond proceeds. We have engaged the State's financial advisor to calculate the interest rate at which these bond proceeds should be invested until they are retired, in Fiscal Year 2001 and Fiscal Year 1995 respectively, in order to "blend down" the yield of such investments to a permissible rate.

The State's bond counsel has advised that the investment of unspent bond proceeds at a restricted yield rate is the only alternative to comply with federal regulations related to bonds issued during this time period. The Department does not feel a liability for the excess investment earnings should be recorded in SBAS as the adjustment will be handled as a reduction of future investment earnings.

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Thank you for the opportunity to respond to your report
recommendations.

Sincerely,



Bob Marks
Director

